

**BALANCING THE FY 2001-02 GENERAL FUND/GENERAL PURPOSE  
AND SCHOOL AND FUND BUDGETS**  
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On February 8, 2001, Governor John Engler presented to the Legislature his recommendations for fiscal year (FY) 2001-02 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) appropriations. This budget presentation by the Governor marked the beginning of a State fiscal year characterized by a slumping national and Michigan economy which resulted in significant downward revisions in the estimated amount of GF/GP and SAF revenues available to support appropriations. These downward revisions in the revenue estimates led to major adjustments to the overall FY 2001-02 State budget originally recommended by the Governor. This article provides a summary of the adjustments that were made to the Governor's original FY 2001-02 GF/GP and SAF budgets in order to keep the budgets in balance.

**FY 2001-02 GF/GP Budget Balancing**

The Governor's original FY 2001-02 GF/GP appropriation recommendations provided for \$9.78 billion of spending. This level of appropriations was consistent with the consensus revenue estimate agreed to on January 11, 2001. Legislative action on the FY 2001-02 appropriation recommendations of the Governor continued until May 15, 2001, when the consensus revenue estimate for FY 2001-02 GF/GP revenues was revised downward to a level of \$9.27 billion. This \$514.5 million downward revision in the FY 2001-02 GF/GP consensus revenue estimate forced the Legislature to make significant adjustments to the Governor's original appropriation recommendations. During July 2001 the Legislature completed action on the FY 2001-02 appropriation bills and passed a balanced budget based on the May 15, 2001, consensus revenue estimate. During the summer and fall of 2001 it became apparent that the May 15, 2001, consensus estimate of FY 2001-02 GF/GP revenues would have to be revised downward as well. On October 23, 2001, the Consensus Revenue Estimating Conference held a special meeting and reduced the FY 2001-02 GF/GP consensus revenue estimate by another \$462.4 million to an estimate of \$8.8 billion. This further reduction in the consensus revenue estimate forced the Legislature and the Governor to make additional adjustments to the FY 2001-02 State budget in order to keep a balance between estimated revenues and appropriations. These adjustments were completed by the Legislature on November 8, 2001.

The two downward revisions in the FY 2001-02 GF/GP consensus revenue estimate totaled \$976.8 million or a 10.0% drop from the original consensus revenue estimate that was the basis for the Governor's original FY 2001-02 budget recommendations to the Legislature. This substantial revision in the consensus revenue estimate forced the Legislature and the Governor to make significant adjustments in the budget. These adjustments to the FY 2001-02 GF/GP budget also will have an impact on the FY 2002-03 GF/GP budget.

<b>Table 1</b> <b>FY 2001-02 General Fund/General Purpose Budget Summary</b> <b>Governor's Recommendation to Final Enacted Budget</b> <b>(millions of dollars)</b>	
Governor's Original Appropriation Recommendations .....	\$9,784.6
October 2001 Consensus Revenue Estimate .....	8,807.8
Difference .....	\$ (976.8)
<b>Actions Taken to Balance Budget:</b>	
GF/GP Appropriation Reductions .....	\$ 430.7
Budget Stabilization Fund Withdrawal .....	155.0
Merit Award Trust Fund Transfers .....	131.5
Tobacco Settlement Trust Fund Transfers .....	27.5
Transportation Funding Shifts .....	63.0
Revenue Sharing Reductions .....	65.1
Other Restricted Revenue Adjustments .....	3.3
Sale of Surplus State Property .....	64.6
Tax Amnesty Revenue .....	15.5
Work Project Reductions .....	20.7
<b>Total Adjustments to Balance Budget .....</b>	<b>\$976.9</b>

Table 1 provides a summary of the adjustments that were made to balance the FY 2001-02 GF/GP budget as a result of the \$976.8 million reduction in estimated revenues. These adjustments included a combination of appropriation reductions, transfers to the General Fund from other State restricted funds, the revenue generated from the sale of surplus State property, and revenue from a tax amnesty program. Reductions in the level of GF/GP appropriations originally recommended by the Governor totaled \$430.7 million. The next largest budget adjustment was a \$155.0 million transfer from the Budget Stabilization Fund to the General Fund. Transfers of surplus tobacco settlement funds in the Tobacco Settlement Fund and the Merit Award Trust Fund totaled \$131.5 million and \$27.5 million, respectively. Restricted State transportation funds of \$63.0 million and other State restricted funds of \$3.3 million were transferred to the General Fund. Revenue sharing payments to cities, villages, townships, and counties were reduced by \$65.1 million; \$15.5 million of new revenue is anticipated to be collected from a tax amnesty program; and \$20.7 million of revenue will be generated from the suspension of previously authorized work projects. The final piece of the overall budget solution is \$64.6 million of revenue that is expected to be generated from the sale of the Northville Psychiatric Hospital.

#### **FY 2001-02 School Aid Fund Budget Balancing**

When the Governor introduced his FY 2001-02 State budget recommendations to the Legislature on February 8, 2001, the School Aid Fund (SAF) budget for FY 2001-02 had already been enacted into law by Public Act 297 of 2000. This appropriation bill provided for FY 2001-02 SAF expenditures of \$11.52 billion and was based on the January 11, 2001, consensus revenue estimates. The impact of the slumping national and Michigan economies resulted in significant downward revisions in the FY 2001-02 SAF revenue estimates. These downward revisions in the SAF revenue estimates resulted in projected deficits in the FY 2001-02 SAF year-end balances.

Table 2 provides a summary of the changes that occurred in the FY 2001-02 SAF budget since the January 11, 2001, consensus revenue estimates were completed. A comparison of the original SAF appropriations contained in Public Act 297 of 2000 and the October 23, 2001, consensus estimate of FY 2001-02 SAF revenues led to a \$399.1 million projected deficit. This potential budget deficit was eliminated by three adjustments to the budget. The first was appropriation reductions which totaled \$70.0 million and were contained in Public Act 121 of 2001 and Executive Order 2001-9. Two sources of additional revenue were added to the SAF budget, they included a \$322.5 million transfer from the Budget Stabilization Fund and an estimated \$6.6 million of new revenue

that will be credited to the SAF from the tax amnesty program.

In summary, the deteriorating economic condition in the State over the past year has forced the Governor and the Legislature to take many steps to ensure that the FY 2001-02 GF/GP and SAF budgets continue to be in balance between estimated revenues and enacted appropriations. The actions taken to balance these budgets will have an impact on future State budget decisions.

<b>Table 2</b> <b>FY 2001-02 School Aid Fund Budget Summary</b> <b>Governor's Recommendation to Final Enacted Budget</b> <b>(millions of dollars)</b>	
Governor's Original Appropriation Recommendations . . . . .	\$11,521.0 <sup>a)</sup>
October 2001 Consensus Revenue Estimate . . . . .	11,121.9
Difference . . . . .	\$ (399.1)
<b>Actions Taken to Balance Budget:</b>	
School Aid Fund Appropriation Reductions . . . . .	\$ 70.0
Budget Stabilization Fund Withdrawal . . . . .	322.5
Tax Amnesty Revenue . . . . .	6.6
<b>Total Adjustments to Balance Budget . . . . .</b>	<b>\$399.1</b>
a) Public Act 297 of 2000.	